

## Message Text

PAGE 01 STATE 198011

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TO AMEMBASSY BONN IMMEDIATE

C O N F I D E N T I A L STATE 198011

LIMDIS TOECO 116

FOLLOWING TEL SENT SECSTATE FROM JAKARTA 4 OCTOBER REPEATED

QTE C O N F I D E N T I A L JAKARTA 11848

E.O. 11652: GDS

TAGS: ENRG, EFIN, ID

SUBJ: USG INTEREST IN INDONESIAN LNG

REF: STATE 192987

1. SUMMARY: IN LAST FEW DAYS I HAVE TALKED WITH MINISTER OF MINING SADLI, PERTAMINA PRESIDENT DIRECTOR GENERAL IBNU SUTOWO AND MINISTER OF TRADE RADIUS PRAWIRO, TRYING TO GET AUTHORITATIVE ANSWERS TO QUESTIONS RAISED REFTEL. ON BASIS THESE TALKS SUBSTANCE SUMMARIZED BELOW; MEMCONS BEING POUCHED) I CONCLUDE THAT: A) INDONESIAN DECISIONS ON LNG ARE AND ARE LIKELY TO REMAIN FLUID AND VULNERABLE TO CHANGING CIRCUMSTANCES AND POSSIBLY NEW PRESSURES FROM VARIETY OF QUARTERS; (B) THAT GOVERNMENT ECONOMISTS AND TECHNOCRATS, AND PROBABLY OTHERS, ARE UNDERSTANDABLY CONCERNED THAT PROCEEDS FROM LNG BE ADDED TO INDONESIA FINANCING FOR GENERAL DEVELOPMENT, AND THAT IN ORDER TO ASSURE THIS THEY ARE TRYING  
CONFIDENTIAL

PAGE 02 STATE 198011

TO ASSERT MORE CONTROL OVER PERTAMINA'S ARRANGEMENTS AND FINANCES; (C) THAT RADIUS PRAWIRO IS CONCERNED THAT HE WILL NOT BE ABLE TO PERSUADE THE JAPANESE THAT THEY MUST PAY THE INDONESIANS MORE THAN THE

AMERICANS ARE PAYING FOR LNG AND STILL GET THE JAPANESE TO PROVIDE, ON TOP OF THEIR IGGI ASSISTANCE, SOFT LOANS FOR THE DEVELOPMENT OF LNG PRODUCTION FACILITIES, UNLESS US MAKES SOME BALANCING CONCESSIONS; (D) HFAT IBNU SUTOWO CONTINUES TO ASSERT STRONG, AUTONOMOUS VOICE IN DECISIONS REGARDING OIL AND GAS AND THAT, DESPITE THEIR INTENTION TO PERSIST IN TRYING, TECHNOCRATS ARE UNLIKELY TO LIMIT IBNU SUTOWO'S INDEPENDENCE OF ACTION MUCH UNLESS PRESIDENT SUHARTO COME OUT CLEARLY AND UNEQUIVOCALLY ON THEIR SIDE, (WHICH I DOUBT WILL OCCUR); AND (E) THEREFORE, THAT PACIFIC LIGHTING CONTRACT IS ABOUT AS FIRM AS IT COULD BE IN A FIELD PREGNANT WITH CHANGE AND THE INTERPLAY OF DOMESTIC PRESSURES, INTERESTS, GOALS AND CLIQUES. END SUMMARY.

2. SADLI, WHO HAD JUST RETURNED FROM EXTENDED TRIP, RESPONDED TO MY POINTED QUESTIONS BASED ON REFTTEL WITH PHILOSOPHY RATHER THAN PRECISION. LNG WAS RADIUS' BABY, SADLI SAID AT OUTSET, IMPLYING HE HADN'T BEEN ABLE TO FOLLOW IT CLOSELY. BUT HE CONCEDED THERE WAS CONSIDERATION BEING GIVEN TO ASKING U.S. FOR SOFT LOAN, ON TOP OF IGGI ASSISTANCE, TO INCREASE INDONESIA'S POTENTIAL FOR DEVELOPMENT FROM PROCEEDS OF LNG. I GAVE AS MY PERSONAL OPINION THAT ATTEMPTING TO SUBSTITUTE SOME SUCH ARRANGEMENT FOR OUR NORMAL APPROACH TO AID MIGHT UNDERMINE OUR ABILITY TO PROVIDE AID MONIES FOR OTHER PURPOSES. I ALSO TOLD HIM THAT GIVEN OUR PROCESS OF APPROPRIATIONS THIS WOULD REQUIRE MUCH LEAD TIME AND IT WOULD BE DIFFICULT FOR US TO IMPLEMENT ANY SUCH ARRANGEMENT. SADLI INDICATED THAT THE GOI WAS CONCERNED THAT U.S. AID WOULD DWINDLE AND THAT THE STRONG DEMAND FOR ENERGY RESOURCES SHOULD PROVIDE INDONESIA A WAY TO STRENGTHEN ITS HAND IN DEVELOPING THE COUNTRY. WITH REGARD TO THE PACIFIC LIGHTING CONTRACT, HE SAID HE WAS PREPARED TO APPROVE  
CONFIDENTIAL

PAGE 03 STATE 198011

IT, ACKNOWLEDGING THAT WIJARSO, DIRECTOR GENERAL IN CHARGE OF OIL AND GAS IN HIS MINISTRY, HAD BEEN ONE OF THE PRINCIPAL NEGOTIATORS. BUT HE FELT BAPPENAS HEAD WIDJOJO AND MINISTER OF FINANCE WARDHANA MIGHT RAISE QUESTIONS. IN ANY CASE, SADLI STRESSED, LNG WAS SUCH A NEW SUBJECT TO EVERYONE IN GOI THAT IT WAS ONLY SAFE TO ASSUME THAT THE SITUATION WAS AND WOULD REMAIN FLUID FOR SOME TIME WHILE THEY SEARCH FOR ANSWERS TO MANY, SOME UNPREDICTABLE, QUESTIONS WHICH WOULD ARISE AS THE PROJECTS UNFOLDED. SADLI SAID IT WOULD HELP IF U.S. EXIM BANK WERE WILLING TO CONSIDER FINANCING FOURTH TRAIN FOR NORTH SUMATRAN LNG FACILITIES. SADLI MENTIONED

THAT SPOKESMAN FOR JAPANESE LNG GROUP NOW IN JAKARTA TOLD HIM DAY BEFORE THAT JAPAN HAD NO OBJECTION IF INDONESIAN LNG SOLD TO U.S. AS LONG AS JAPAN GOT WHAT IT NEEDED.

3. WHEN I ASKED GENERAL IBNU SUTOW IF HE ANTICIPATED ANY PROBLEM OR ANY CHANGES IN DETAIL IN THE PROCESS OF SECURING GOVERNMENT APPROVAL FOR THE PACIFIC LIGHTING CONTRACT HE SAID, IN HIS USUAL DIRECT, SIMPLE, TRENCHANT STYLE, "NO RPT NO FORMAL GOVERNMENT APPROVAL IS NECESSARY." HE SAID THE CONTRACT HAD BEEN NEGOTIATED WITHIN BOUNDARIES OF ESTABLISHED GOI POLICIES. AS SOON AS FPC APPROVAL IS SECURED THE PROJECT COULD PROCEED, HE SAID.

4. IN CONTRAST TO HIS EARLIER JOULAR AND SLIGHTLY TEASING MOOD (JAKARTA 11307) WHEN I PUT QUESTIONS REFTEL RATHER BLUNTLY TO RADIUS PRAWIRO OCTOBER 3 HE LISTENED SOBERLY AND FOR THE MOST PART AVOIDED DIRECT RESPONSES. HE MADE NO REPLY TO MY ASSERTION THAT U.S. OFFICIAL INTEREST WAS MANIFEST AND THAT I WISHED TO REASSERT IT. NOR DID HE RESPOND DIRECTLY WHEN I DESCRIBED DIFFICULTIES I FORESAW SHOULD GOI BE PROPOSING QUID PRO QUO OF SOFT LOAN FROM U.S. FOR LNG FOR PACIFIC LIGHTING EXCEPT THAT HE WOULD TALK TO WIDJOJO. HIS ONLY REACTION WHEN I TOLD HIM GENERAL IBNU TOLD ME THAT NO RPT NO FORMAL GOI APPROVAL WAS REQUIRED FOR PACIFIC LIGHTING CONTRACT WAS THAT HE WAS NOT A MEMBER OF PERTAMINA'S CONFIDENTIAL

PAGE 04 STATE 198011

BOARD OF COMMISSIONERS AND WOULD TALK TO SADLI, WARDHANA AND WIDJOJO. RADIUS RATHER PLAINTIVELY ASKED HOW HE COULD PERSUADE JAPANESE TO PAY INDONESIA MORE FOR LNG THAN AMERICAN WOULD PAY INDONESIA, AND AT THE SAME TIME ASK THEM TO PUT UP SOFT LOANS FOR LNG PRODUCTION RESOURCES. ONCE AGAIN RADIUS STRESSED DISADVANTAGEOUS TERMS OF U.S.. EXIM BANK FINANCING MIXED WITH MONEY ON COMMERCIAL TERMS COMPARED TO JAPANESE MONEY AT THREE PERCENT.

RADIUS, LIKE SADLI MENTIONED STRONG JAPANESE INTEREST IN OBTAINING MAXIMUM AMOUNT OF LNG. HE INDICATED HE WOULD LIKE TO TALK TO US ABOUT THIS WHOLE PROBLEM IN WASHINGTON IF HE GOES THERE IN OCTOBER. IN RESPONSE TO MY URGING THAT IF GOI APPROVAL OF PACIFIC LIGHTING CONTRACT IS REQUIRED IT BE PROVIDED ASAP SO AS TO AVOID ANY COMPLICATION THAT MIGHT SLOW DOWN FPC APPROVAL, RADIUS SAID HE WOULD LOOK INTO MATTER AND WOULD KEEP ME INFORMED.

6. UNFORTUNATELY, I HAD TO GO FROM THIS SUBJECT TO PL 480 AND RADIUS TOOK NEWS OF BLEAK PROSPECTS

FOR ANY U.S. SUPPLIES IN NEXT FEW MONTHS OF RICE,  
WHEAT OR COTTON EVEN MORE SOBERLY THAN FOREGOING.

7. COMMENT: I BELIEVE WE SHOULD STAND PAT ON  
PACIFIC LIGHTING CONTRACT AND, WHILE KEEPING AS  
CURRENTLY INFORMED AS POSSIBLE, ALLOW INDONESIA TO  
GO AHEAD WITH THEIR NEGOTIATIONS WITH JAPAN ON  
LNG, AVOIDING APPARENT OR ACTUAL U.S. INTERFERENCE  
THAT WOULD SCARE THE INDONESIANS. IN LIGHT OF GENERAL  
IBNU'S EXCELLENT RECORD OF KEEPING HIS WORD AND OF  
BEING ABLE TO DELIVER PRESIDENT SUHARTO'S APPROVAL  
AND WIN HIS SUPPORT, I THINK WE CAN BE REASONABLY  
CONFIDENT THAT PACIFIC LIGHTING'S CONTRACT WILL STAND  
UNLESS,  
OF COURSE, TOO GREAT CHANGE IN WORLD  
MARKET FOR LNG WHICH WOULD MAKE INDONESIA FEEL IT  
HAD TO GET MORE FOR ITS GAS THAN PRESENT CONTRACT  
PROVIDES. AS WE HAVE STATED BEFORE, HOWEVER,

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